



Patrick W. Henning, Director
November 4, 2008
22M:384:ch:8103-8104



Arnold Schwarzenegger
Governor

Ms. Madalyn Blake, Director
Community Development and Housing Department
Verdugo Consortium
141 N. Glendale Avenue
Glendale, CA 91206

Dear Ms. Blake:

WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2007-08

This is to inform you of the results of our review for Program Year (PY) 2007-08 of the Verdugo Consortium's (Verdugo) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Ms. Carol Hammond from April 28, 2008 through May 2, 2008. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, contract terms and agreements, and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by Verdugo with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2007-08.

We received your response to our draft report on July 31, 2008 and reviewed your comments and documentation before finalizing this report. Because your response adequately addressed the finding cited in the draft report, no further action is required and we consider the issue resolved.

BACKGROUND

The Verdugo was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2007-08, Verdugo as allocated: \$646,322 to serve 94 adult participants; \$579,659 to serve 208 youth participants; and \$643,149 to serve 153 dislocated worker participants.

For the quarter ending March 31, 2008, Verdugo reported the following expenditures and enrollments for its WIA programs: \$113,827 to serve 116 adult participants; \$24,334 to serve 157 youth participants; and \$121,986 to serve 162 dislocated worker participants.

FISCAL REVIEW RESULTS

While we concluded that, overall, Verdugo is meeting applicable WIA requirements concerning financial management, we noted an instance of noncompliance in the area of reporting accruals. The finding that we identified in this area, our recommendation, and Verdugo proposed resolution of the finding is specified below.

FINDING 1

Requirement: 20 CFR Section 667.300(c)(3) states, in part, that reported expenditures must be on the accrual basis of accounting.

WIA Directive WIAD05-14 states, in part, that all WIA recipients are required to use the accrual system of accounting and submit a Summary of WIA Expenditures Report on a quarterly basis. Accrued expenditures are defined as "the charges incurred and recorded, but not yet paid for, during a report period requiring the provision of funds by the grantee or subgrantee for (1) goods and other tangible property received, (2) services performed by employees, contractors, subgrantees, subcontractors, and other payees, and (3) other amounts becoming owed under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments."

Observation: We reviewed Verdugo's Adult, Youth, and Dislocated Worker program expenditure reports for the period ending March 31, 2008 and noted that Verdugo reports accruals for contract payments, individual training accounts, and vendor invoices

quarterly, but does not report salary accruals in its quarterly expenditure report.

Recommendation: We recommend that, Verdugo provide the Compliance Review Division (CRD) with a corrective action plan (CAP), including a timeline, to report salary accruals on a quarterly basis to the JTA reporting system.

Verdugo Response: Verdugo states that their employees are paid semi-monthly. Paydays occurred on the 6th and the 21st of each month. Verdugo journals the payments on the last day of the pay period and post payments back dating to the last day of pay period.

As the quarterly expenditure reports are due by the 20th of the month following the end of each quarter, payroll expenses have already been incurred and post for the quarter prior to the quarterly report deadline.

State Conclusion: Although payroll expenses at the end of the month are not paid until the 6th of the following month, Verdugo posts the payroll expenses as of the last day of the month. Verdugo then includes these costs in its JTA expenditure reports as actuals. Therefore, we consider this finding resolved.

PROCUREMENT REVIEW RESULTS

We conclude that, overall, Verdugo is meeting applicable WIA requirements concerning procurement.

We provide you up to 25 working days after receipt of this report to submit to the Compliance Review Division your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than December 12, 2008. If we do not receive a response by this date, we will release this report as the final report. Please submit your response to the following address:

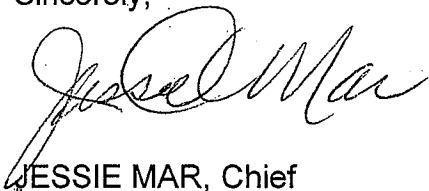
Compliance Monitoring Section
Compliance Review Division
722 Capitol Mall, MIC 22M
P.O. Box 826880
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all the areas included in our review. It is Verdugo's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain Verdugo's responsibility.

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Mr. Jim Tremblay at (916) 654-7825 or Ms. Carol Hammond at (916) 653-6633.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jessie Mar".

JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Division

cc: Jose Luis Marquez, MIC 50
Daniel Peterson, MIC 45
Georganne Pintar, MIC 50
Larry Scaramella, MIC 50